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February 25, 2009

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Reference: Advance Notice of Proposed Rulemaking (ANPR) regarding the structure and operations of corporate credit unions.

Dear Ms. Rupp,

We believe that the corporate problem today is a consequence of behavior in the credit and securities markets of the free world. There was no conspiring but merely conforming to market norms and conventions. In this instance, the markets were riddled with poor judgments, faulty assessments, greed, and fraud. This does not obviate the need to reform the corporate system to enhance its future performance.

We believe that the NCUSIF is not the best source to resolve the crisis at hand. The NCUSIF is geared to stabilize natural person credit unions. We find it odd that NCUA does not view this credit union's credit union's credit union as having an affliction that has impacted its liquidity. As so, it should seek assistance from the central bank (the Federal Reserve or an equivalent), Treasury, or the Congress. As has been done time and time again over the past six months, illiquid securities could possibly be posted as collateral with the Fed with cash advanced in return.

Many financial institutions are suffering today. Few financial experts are characterizing the illiquidity, and declining market values of mortgage related securities as a problem that can be solved by replenishment of capital. Rather, it is the injection of liquidity that is the immediate solution. Capital raising in the corporate sector entails them raising funds from retail CUs in the form of at risk member shares. We believe that approach is effective and should be preserved. We do not believe the NCUSIF is suited for corporate capitalization. To use the NSUSIF in this way renders the fund inadequate to handle retail demands and vulnerable to any corporate who suffers from illiquidity or poor asset quality in the future. Any corporate CU with a chronic financial condition could conceivably deplete the fund many times over.

To divert funds from the NCUSIF to replenish capital seems to be short sighted and stop gap in nature. Use of this remedy may very well set the precedent for a second or third use that may well deplete the Fund. The dollars are staggering relative to the meager \$7 billion base which is indicative that this is a liquidity problem best resolved by the Federal Reserve, the CLF, Treasury, and possibly an act of the Congress. Lastly, we believe that this proposal to tap the NCUSIF may cause irreplaceable damage to the credit union industry by tarnishing its image throughout America. It could also cause members to withdraw their funds and possibly push hundreds of credit unions suffering from the Recession into insolvency.

The specific solution that we would favor is a \$5 billion subordinated note that would be placed in US Central. It would have a five year term. This note serves to provide liquidity and allow "under water" securities to be held to maturity in US Central and other corporates. This note could be guaranteed by a pledge from the NCUSIF but the pledge must not trigger a write down nor a premium assessment. It should be noted that this is not seeking of free government money under a TARP type program, for we fear this will lead to taxation by the government down the road. This is a borrowing and repayment of quasi equity (subordinated debt) that can be counted as capital for accounting and regulatory purposes.

Now we wish to address specific questions posed by this matter.

1) Role of Corporates in the Credit Union System

a) Payment System: Currently, payment services offered by corporates are coupled with other services.

i) Should payment services be isolated from other services to separate the risks? If so, how would this best be achieved? In our view and experience, there is not a safety risk with corporates providing invest functions and payment system functions. Corporates should be allowed to continue as payment system solution providers.

ii) For example, would it be better to establish a charter for corporates whereby a corporate's authority is strictly limited to operating a payment system, with no authority to engage in other services, such as term or structured investments? This would be redundant and there is no material basis to partition the two functions.

iii) Should a separate charter be available for corporates that want to provide investment services? No. However corporates need a tighter investment supervision and guidance in order to avoid *below investment grade securities* which is the root of the problem today.

iv) Should NCUA establish a legal and operational firewall between payment system services and other services? No. However there are payment system companies existing today which are CUSOs that could take on this role. Especially with the

advent of electronic transit items, payment systems could be parceled out to these CUSOs or public sector companies.

v) Are there sufficient earnings potential in offering payment systems to support a limited business model that is restricted to payment systems services only? **Margins in the payment systems area require efficiency. Our observation is that investment, and lending functions at corporates subsidize the thin margined Payment system business. Only large players in this market have the economies to survive. Otherwise, the business model is flawed.**

b) Liquidity and Liquidity Management: A vital role of corporates is to fulfill the liquidity needs of their members. Thus, it is crucial that corporates properly consider their investment position relative to their cash flow needs.

i) Should liquidity be considered a core service of the corporate system? **If so, what steps should be taken, and by whom, to preserve and strengthen corporates' ability to offer that service? Liquidity is a primary function of a corporate. A corporate's balance sheet must be constructed to withstand withdrawals and loan advances to its natural person credit unions. Practices such as chasing yields of risky instruments or mismatching liabilities with assets need to be closely monitored and contained if losses are to be mitigated.**

ii) For example, should NCUA consider limiting a corporate's ability to offer other specific types of products and services in order to preserve and defend the liquidity function? **Yes, to a greater degree NCUA must tighten the ability of a corporate to purchase below investment grade securities, all synthetic collateralized securities, or any security whose invest grade is predicated on a mathematical "ponzi" scheme involving tranches.**

iii) What specific types of products and services should corporates be authorized to provide? **Credit, liquidity, investments, and payment systems are core corporate functions all subject to regulation. Regulation should be based on the net worth make up of the corporate and the risk make up of its underlying assets. For the riskier balance sheet, the regulation should provide for a higher capital requirement.**

c) Field of Membership Issues: NCUA is questioning whether the allowance of national FOMs for corporates has resulted in significant and unforeseen risk taking.

i) Should NCUA return to defined FOMs, for example, state or regional FOMs? **No. Given the electronic clearing of items, there is no need for local FOMs. We believe that safety and soundness is better served if every credit union has multiple choices on corporate membership.**

d) Expanded Investment Authority: Currently, corporates meeting certain criteria can qualify for expanded investment authority; such as authority to purchase investments with relatively lower credit ratings than otherwise permissible under the rule.

es the need for expanded authorities continue to exist? **If so, should NCUA**
lify the procedures and qualifications, such as higher capital requirements? I
what should the new standards be? Clearly, this system has failed us and it
me to start off new again. The relationship between capital and incremental
vestment risk needs to be examined and common sense expansion powers
ad to be adopted.

Should NCUA reduce the expanded authorities available? **If so, which ones?**
ternatively, should any of the limits in existing expanded authorities be reduced
increased? If so, which ones? Once granted, should NCUA require periodic re-
qualification for expanded authorities? If so, what should be the time frame?
nequivocally, NCUA must tighten the ability of a corporate to purchase,
nowingly or unknowingly, below investment grade securities, all synthetic
ollateralized securities, or any security whose investment grade is predicated on
mathematical “ponzi” scheme involving tranches. The latter is a product that in
recent years is littered with fraud.

a) Structure; Two-Tiered System: NCUA solicits comment on whether the current two-tier corporate system meets the needs of credit unions. Specifically, NCUA seeks input on whether there is a continuing need for a wholesale corporate credit union.

i) If so, what should be its primary role? **There is no need for a wholesale corporate credit union today. The reason is that it presents a single point of failure for the credit union movement and it is redundant relative to the function of the other retail corporates.**

ii) Should there be a differentiation in powers and authorities? **The wholesale corporate of tomorrow, if it is to exist, should function merely as a clearing house on behalf of retail corporates. There should be no investment or lending functions only payments systems and transference of liquidity.**

iii) Does the current configuration result in an inappropriate transfer of risk from the retail corporates to the wholesale corporate? **Irrefutably, yes.**

iv) Assuming the two-tiered system is retained, should capital requirements and risk measurement criteria (e.g., net asset value volatility), as well as the range of permissible investments, for the wholesale corporate be different from those requirements that apply to a retail corporate? **Yes, but again we view this configuration as redundant and it portends a single point failure to the CU movement.**

2) Corporate Capital: NCUA is considering revising certain definitions and standard determining appropriate capital requirements for corporates. In addition to the ques below feel free to comment on any revisions NCUA should consider for the definitic and operation of membership capital.

a) Core Capital: Currently, core capital is defined as retained earnings plus paid-in capital.

i) Should NCUA establish a new capital ratio for corporates consisting only of core capital, and if so, what would be an appropriate level? **We believe that corporates are adequately capitalized under today's rules with one exception -- the holding of below investment grade securities, all synthetic collateralized securities, or any security whose invest grade is predicated on a mathematical scheme involving tranches within which poor or inferior credit quality is latent. For these securities, specific capital requirements must be required depending on the amount held on the balance sheet.**

ii) What actions are necessary to enable corporates to attain a sufficient core capital ratio as described above? **Corporates should be able to use their own internal retain earnings or member capital shares or subordinated notes to meet capital requirements. We do not believe credit unions should be required to fund any additional capital into the system other than what is provided for currently.**

iii) What would be an appropriate time frame for corporates to attain sufficient capital? **No response.**

iv) How much emphasis should be placed on generating core capital through undivided earnings? **This should be the primary means to raise capital. It should be supplemented with the ability to issue subordinated notes to investors who wish to invest in a corporate subordinated to all shares.**

v) Should a corporate be required to limit its services only to members maintaining contributed core capital with the corporate? **Yes.**

b) Membership Capital

i) Should NCUA continue to allow membership capital in its current configuration, or should it eliminate or modify certain features, such as the adjustment feature, so that membership capital meets the traditionally accepted definition of tier-two capital? **We do not believe a change is needed.**

ii) Should the adjusted balance requirements, currently in §704.3(b)(8), be tied only to assets, and should limits be imposed on the frequency of adjustments? **No changes are needed.**

iii) Should there be a requirement that any attempted reduction in membership capital based on downward adjustment automatically result in the account being placed on notice, within the meaning of §704.3(b)(3), so that only a delayed payout after the three-year notice expires is permissible? **No changes are needed.**

iv) Should there be a requirement that any withdrawal of membership capital be conditioned on the corporate's ability to meet all applicable capital requirements following withdrawal? **Yes.**

c) Risk-Based Capital and Contributed Capital Requirements

i) Should NCUA consider risk-based capital for corporates consistent with that currently required of other federally regulated financial institutions? **Yes, this would be a step to ensure capital matches the quality of assets.**

ii) What regulatory and statutory changes, if any, would be required to effectuate such a change? **Statutory changes are required to effect risk-based capital measures as with BASEL accords.**

iii) Should a natural person credit union be required to maintain a contributed capital account with its corporate as a prerequisite to obtaining its services? **Yes.**

iv) Should contributed capital be calculated as a function of share balances maintained with the corporate? What about using asset size? **Capital contributed should be in proportion to asset size of the credit union.**

3) Permissible Investments: Currently, corporates have the authority to purchase and hold investments that would not be permissible for natural person credit unions. Thus, a member of a corporate is indirectly exposed to any risky investments held by the corporate.

a) Should corporate investment authorities be limited to those allowed for natural person credit unions? **Funds in riskier investments should be limited to the corporate's net worth.**

b) Should certain categories or specific investments be prohibited? (For example: collateralized debt obligations, net interest margin securities, and subprime and Alt-A asset-backed securities). **The holding of below investment grade securities, all synthetic collateralized securities, or any security whose invest grade is predicated on a mathematical scheme involving tranches within which poor or inferior credit quality is latent -- investments of this type should be limited to the corporate net worth. This will ensure exposure is limited.**

4) Credit Risk Management: With many questioning the reliability of credit ratings for investments, NCUA is considering limiting the extent to which a corporate may focus on ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs).

a) Should NCUA require more than one rating for an investment, or require that the lowest rating meet the minimum rating requirements of Part 704? **These agencies can be influenced by investment firms to assign faulty ratings, so reliance on one NRSRO should be avoided.**

b) Should additional stress modeling tools be required in the regulation to enhance credit risk management? **Yes.**

c) Should Part 704 be revised to provide specific concentration limits, including sector and obligor limits? If so, what specific limits would be appropriate for corporates? **Yes.**

d) Should corporates be required to obtain independent evaluations of credit risk in their investment portfolios? If so, what would be appropriate standards for these contractors? **Yes.**

e) Should corporates be required to test sensitivities to credit spread widening, and if so, what standards should apply to that effort? **Yes.**

5) Asset Liability Management: NCUA is considering reinstating the requirement that corporates perform net interest income modeling and stress testing. Alternatively, NCUA may consider some form of mandatory modeling and testing of credit spread increases.

a) Should NCUA require corporates to use monitoring tools to identify these types of trends? What, if any, tangible benefits would flow from these types of modeling requirements? **No response.**

6) Corporate Governance: Due to the sophistication and far-reaching impact of corporate activities, NCUA is considering several changes to corporates' boards.

a) Should NCUA establish minimum standards for directors in regard to their level of experience and independence? **Yes. Corporate boards should be made up of qualified individuals who understand today's investment markets and credit markets in addition to credit unions.**

b) Should "outside directors" be allowed? (I.e., those who are not officers of that corporate, officers of member natural person credit unions, and/or individuals from entirely outside the credit union industry). **Today there are professionals within or related to the credit union industry that can bring needed expertise to the corporate arena. These individuals can be found in academia, licensed securities representatives who work for CUSOs or CUs, CPAs, CFAs, CFOs, and CEOs. Corporate boards need to be required to have investment and credit backgrounds. Professional licenses, academic degrees, and job experience must be used as criteria to determine fitness to serve in addition to credit union experience.**

c) Is the current structure of retail and wholesale corporate credit union boards appropriate given the corporate business model? **There should be no overlapping directorships. There should be provision that requires larger boards as the corporate increases in assets. For example, depending on size corporates would be required to grow their director ranks. It would move in increments of 2 from 7 to 9 to 11 to 13 to 15 to 17 and then to 19. We believe that larger director bodies safeguard better the broad interest of its membership.**

d) Should a wholesale corporate credit union be required to have some directors from natural person credit unions? **While we do not see a need for the wholesale corporate in today's times, if wholesale corporates were to continue, there needs to be provision for more directors of which half would hail from natural person CUs.**

e) Should NCUA impose term limits on corporate directors, and, if so, what should the maximum term be? **The limit should specify no more than 9 years of continuous service.**

f) Should corporate directors be compensated, and, if so, should such compensation be limited to outside directors only? **We oppose compensation as it does not necessarily translate to quality leadership, knowledge, and desire to serve.**

g) Should NCUA allow members of corporates greater access to salary and benefit information for senior management? **Yes, there needs to be greater transparency to members on what bonus, incentive, retirement, cash deferments, and salary structures are in place.**

Thank you for the opportunity to respond to these issues. We hope that an astute solution is adopted providing for a viable future for the American credit union movement.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bill Younger", written in a cursive style.

Bill Younger
Chairman of the Board

cc: Chris Collver, CCUL/NCUL
Mary Dunn, CUNA & Affiliates